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Report to the Legislature

GUARANTEED STUDENT LOAN PROGRAM

COMMISSIONER OF HIGHER EDUCATION

Financial Audit for the
Fiscal Year Ended June 30, 1986

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STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122



SCOTT A. SEACAT
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:

JAMES GILLET
FINANCIAL COMPLIANCE AUDITS

JIM PELLEGRINI
PERFORMANCE AUDITS

LEGAL COUNSEL:

JOHN W. NORTHEY

September 1986

The Legislative Audit Committee
of the Montana State Legislature:

This is our report on the audit of the Commissioner of Higher Education's Guaranteed Student Loan Program (GSL) for the fiscal year ended June 30, 1986.

The Montana Guaranteed Student Loan Program, established in 1979 by the Montana Legislature, allows eligible students to receive guaranteed loans from lender institutions. The federal government guarantees the loans made by lending institutions. The federal government also advances start-up money and makes administrative cost reimbursements to GSL.

The Guaranteed Student Loan Program contracts with the United Student Aid Fund (USAF) to collect the one percent guarantee fee, default payments, and statistical information from individual students. The money collected and statistical information is submitted to GSL. Guarantee fee revenue is recognized each year based upon the average life of a loan which is estimated at eight years. The remaining loan fees received are recorded as deferred revenue.

We thank the Commissioner of Higher Education and his staff for their cooperation and assistance during the audit.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Scott A. Seacat", written over a horizontal line.
Scott A. Seacat
Legislative Auditor

STATE OF MONTANA
Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
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SCOTT A. SEACAT
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JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the Balance Sheet - Special Revenue Fund of the Guaranteed Student Loan Program of the state of Montana as of June 30, 1986, and the related Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Special Revenue Fund, for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The financial statements presented are only for the Guaranteed Student Loan Program. Accordingly, the accompanying financial statements are not intended to present the financial position of the state of Montana as of June 30, 1986, or the results of its operations and changes in its fund balances for the fiscal year then ended, in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly the financial position of the Guaranteed Student Loan Program as of June 30, 1986, and the results of its operations and changes in its fund balance for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Respectfully submitted,

A handwritten signature in cursive script that reads "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

September 4, 1986

COMMISSIONER OF HIGHER EDUCATION
GUARANTEED STUDENT LOAN PROGRAM
BALANCE SHEET - SPECIAL REVENUE FUND
JUNE 30, 1986

ASSETS

Cash in Treasury	\$ 18,067
Interest Receivable	18,935
Accounts Receivable	39,786
Due from Federal Government	1,274,956
Investments	<u>3,137,570</u>
Total Assets	<u>\$4,489,314</u>

LIABILITIES AND FUND BALANCE

Liabilities:

Accounts Payable	\$ 595,197
Accrued Expenditures	285
Due to Federal Government	761,777
Deferred Revenue	<u>2,065,237</u>
Total Liabilities	<u>3,422,496</u>

Fund Balance:

Restricted (Note 5)	165,880
Unrestricted	<u>900,938</u>
Total Fund Balance	<u>1,066,818</u>

Total Liabilities and Fund Balance	<u>\$4,489,314</u>
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The accompanying notes are an integral part of this financial statement.

COMMISSIONER OF HIGHER EDUCATION
GUARANTEED STUDENT LOAN PROGRAM
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR FISCAL YEAR ENDED JUNE 30, 1986

	<u>Budget</u>	<u>Actual</u>	Variance- Favorable (Unfavorable)
REVENUE:			
Guarantee Fee Revenue	\$ 300,000	\$ 404,059	\$104,059
Administrative Cost Allowance	275,000	295,881	20,881
Interest Income	190,000	251,568	61,568
Total Revenues	<u>765,000</u>	<u>951,508</u>	<u>186,508</u>
EXPENDITURES:			
Administrative Costs	1,135,247	674,529	460,718
Capital Outlays	<u>4,631</u>	4,631	(4,631)
Total Expenditures	<u>1,135,247</u>	<u>679,160</u>	<u>456,087</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(370,247)	272,348	642,595
PRIOR YEAR ADJUSTMENT	-0-	(16,114)	(16,114)
BEGINNING FUND BALANCE	<u>810,584</u>	<u>810,584</u>	<u>-0-</u>
ENDING FUND BALANCE	<u>\$ 440,337</u>	<u>\$1,066,818</u>	<u>\$626,481</u>

The accompanying notes are an integral part of this financial statement.

COMMISSIONER OF HIGHER EDUCATION
GUARANTEED STUDENT LOAN PROGRAM

Notes to the Financial Statements
June 30, 1986

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Program

The state of Montana Guaranteed Student Loan (GSL) program is located in the Office of the Commissioner of Higher Education. As a Special Revenue Fund, it accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The program was established by the Office of the Commissioner of Higher Education in fiscal year 1981 to coordinate and administer the federally insured student loans issued by various lending institutions within the state of Montana. Since the inception of the program approximately \$136,000,000 in loans have been guaranteed.

B. Basis of Accounting

The financial statements were prepared using the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recorded on the basis of valid obligations. Revenues are recorded when received in cash unless susceptible to accrual.

Revenues are susceptible to accrual if they are measurable and available to finance expenditures of the fiscal period or are not received at the normal time of receipt. Revenues are deferred if material and are received before the "normal" time of receipt or if received for a particular activity and the expense for the activity has not been incurred prior to fiscal year-end.

2. EMPLOYEES' RETIREMENT SYSTEM

The Guaranteed Student Loan program employees are covered by either the Public Employees' Retirement System (PERS) or the Teachers' Retirement System (TRS).

Under PERS, the state contributes 6.417 percent of an employee's gross wages to PERS. The employee contributes 6.0 percent of his gross wages. In fiscal year 1985-86, \$4,474 was contributed to PERS in employer contributions.

Under TRS, the state contributes 7.320 percent of an employee's gross wages to TRS. The employee contributes 7.044 percent of his gross wages. In fiscal year 1985-86, \$3,342 was contributed to TRS in employer contributions.

The state's policy is to fund accrued pension costs. Based on the most recent actuarial valuation reports, both the PERS and the TRS were actuarially sound.

3. INVESTMENTS

Investments are units purchased in the state of Montana's Short-Term Investment Pool and are reflected at cost. The June 30, 1986, balance reflects the following:

<u>Number of Units</u>	<u>Cost</u>	<u>Market Value</u>
3,322	\$3,137,570	\$3,222,905

4. FEDERAL ADVANCES PAYABLE

The program has received \$734,173 in the first five years of its operations from the United States Government, Department of Education, to assist the program in its start-up stages. These funds are restricted in their use and may be recalled by the federal government if the reserve maintained by the program exceeds certain requirements. At June 30, 1986, the program's reserve had not exceeded the requirements.

5. RESTRICTED FUND BALANCE

This fund balance accounts for all interest earnings on the advances discussed in Note 4 as program regulations require these interest earnings be maintained for claim payments.

6. ADMINISTRATIVE COST ALLOWANCE REVENUE

The fiscal year 1986 Administrative Cost Allowance revenue is \$295,881 of accrued revenue which is dependent upon the federal appropriation.

7. NET LOAN LOSS EXPENSE

The United Student Aid Fund (USAF) pays individual lending institutions for any loans that have been defaulted or are unpaid due to the death of the borrower. The Guaranteed Student Loan (GSL) program reimburses USAF for the amounts paid on death and default claims. The GSL program then seeks reimbursement from the Department of Education for payments made to USAF for the death and default claims.

The extent of this activity for the past fiscal year is shown below:

	<u>1986</u>
Death Claims Loss	\$ 67,254
Death Claims Insured by the Department of Education	(67,254)
Default Claims Loss	3,024,076
Default Claims Insured by the Department of Education	(3,024,076)

8. NET LOAN RECOVERIES

The United Student Aid Fund (USAF) seeks collection of loans that have been defaulted. Upon collection of all or a portion of a defaulted loan, USAF deducts an amount, not to exceed 30 percent of the collected amount, as a collection fee, and gives the balance to the Guaranteed Student Loan (GSL) program. Since the GSL program has already received payment for the defaulted loan from the Department of Education previously, the amount of the net loan recovery is owed back to the Department of Education.

The extent of this activity for the past fiscal year is shown below:

	<u>1986</u>
Loan Recoveries Received	\$233,777
Loan Recoveries Due to the Department of Education	(27,604)
Loan Recoveries Remitted to the Department of Education	(206,173)

